ARC RESOURCES LTD.

CONDENSED INTERIM BALANCE SHEETS (unaudited)
As at

(Cdn$ millions)	**June 30, 2020**	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**0.1**	8.5
Accounts receivable (Note 4)	**145.6**	134.4
Prepaid expense	**7.9**	8.9
Risk management contracts (Note 10)	**41.0**	41.4
	194.6	193.2
Risk management contracts (Note 10)	**3.2**	4.2
Exploration and evaluation assets	**221.3**	219.6
Property, plant and equipment (Notes 5 and 6)	**4,437.8**	5,074.3
Right-of-use assets	**31.7**	38.8
Goodwill (Note 6)	**248.2**	248.2
Total assets	**5,136.8**	5,778.3
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**110.3**	150.5
Current portion of lease obligations	**11.5**	16.3
Current portion of long-term debt (Note 7)	**156.0**	148.9
Current portion of asset retirement obligation (Note 8)	**10.0**	25.5
Dividends payable (Note 11)	**21.3**	17.7
Risk management contracts (Note 10)	**8.3**	6.1
	317.4	365.0
Risk management contracts (Note 10)	**44.4**	28.7
Long-term portion of lease obligations	**26.6**	29.9
Long-term debt (Note 7)	**789.0**	728.7
Long-term incentive compensation liability (Note 13)	**20.2**	24.5
Other deferred liabilities	**16.9**	5.1
Asset retirement obligation (Note 8)	**547.3**	384.1
Deferred taxes	**598.5**	772.4
Total liabilities	**2,360.3**	2,338.4
SHAREHOLDERS' EQUITY		
Shareholders' capital (Note 11)	**4,658.2**	4,658.3
Contributed surplus	**34.6**	32.2
Deficit	**(1,916.3)**	(1,250.6)
Total shareholders' equity	**2,776.5**	3,439.9
Total liabilities and shareholders' equity	**5,136.8**	5,778.3
Commitments and contingencies (Note 14)		

See accompanying notes to the unaudited condensed interim financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions, except per share amounts)	**2020**	2019	**2020**	2019
Commodity sales from production (Note 12)	**217.9**	282.9	**487.4**	610.7
Royalties	**(5.7)**	(15.7)	**(20.9)**	(34.7)
Sales of commodities purchased from third parties	**2.9**	23.0	**17.1**	43.5
Revenue from commodity sales	**215.1**	290.2	**483.6**	619.5
Interest income	**—**	1.3	**0.2**	3.5
Other income	**1.2**	2.6	**2.7**	4.5
Gain (loss) on risk management contracts (Note 10)	**(70.7)**	9.0	**29.6**	(117.2)
Total revenue, interest and other income and gain (loss) on risk management contracts	**145.6**	303.1	**516.1**	510.3
Commodities purchased from third parties	**3.4**	22.2	**16.7**	43.8
Operating	**50.3**	62.0	**111.1**	127.6
Transportation	**43.6**	36.8	**83.0**	73.8
General and administrative	**22.4**	11.0	**37.7**	34.3
Interest and financing	**12.2**	12.1	**24.7**	24.7
Impairment of financial assets (Note 4)	**1.1**	8.5	**11.7**	8.5
Depletion, depreciation, amortization and impairment (Notes 5 and 6)	**129.4**	135.2	**1,005.1**	274.2
Loss (gain) on foreign exchange	**(27.9)**	(15.2)	**36.6**	(28.8)
Total expenses	**234.5**	272.6	**1,326.6**	558.1
Net income (loss) before income taxes	**(88.9)**	30.5	**(810.5)**	(47.8)
Recovery of income taxes				
Current	**(31.8)**	(16.5)	**(34.9)**	(10.0)
Deferred	**(13.6)**	(47.4)	**(173.7)**	(77.6)
Total income tax recovery	**(45.4)**	(63.9)	**(208.6)**	(87.6)
Net income (loss) and comprehensive income (loss)	**(43.5)**	94.4	**(601.9)**	39.8
Net income (loss) per share (Note 11)				
Basic	**(0.12)**	0.27	**(1.70)**	0.11
Diluted	**(0.12)**	0.27	**(1.70)**	0.11

See accompanying notes to the unaudited condensed interim financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

For the six months ended June 30

(Cdn$ millions)	Shareholders' Capital (Note 11)	Contributed Surplus	Deficit	Total Shareholders' Equity
December 31, 2018	4,658.5	27.2	(1,009.9)	3,675.8
Impact of change in accounting policy	—	—	(0.7)	(0.7)
January 1, 2019	4,658.5	27.2	(1,010.6)	3,675.1
Comprehensive income	—	—	39.8	39.8
Recognized under share-based compensation plans (Note 13)	—	2.5	—	2.5
Dividends declared (Note 11)	—	—	(106.2)	(106.2)
June 30, 2019	4,658.5	29.7	(1,077.0)	3,611.2
December 31, 2019	4,658.3	32.2	(1,250.6)	3,439.9
Comprehensive loss	**—**	**—**	**(601.9)**	**(601.9)**
Recognized under share-based compensation plans (Note 13)	**(0.1)**	**2.4**	**—**	**2.3**
Dividends declared (Note 11)	**—**	**—**	**(63.8)**	**(63.8)**
June 30, 2020	**4,658.2**	**34.6**	**(1,916.3)**	**2,776.5**

See accompanying notes to the unaudited condensed interim financial statements.

ARC RESOURCES LTD.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS (unaudited)

For the three and six months ended June 30

	Three Months Ended		Six Months Ended	
(Cdn$ millions)	**2020**	2019	**2020**	2019
CASH FLOW FROM OPERATING ACTIVITIES				
Net income (loss)	**(43.5)**	94.4	**(601.9)**	39.8
Add items not involving cash:				
Unrealized loss on risk management contracts	**102.5**	15.2	**19.3**	161.7
Accretion of asset retirement obligation (Note 8)	**1.6**	1.9	**3.4**	3.8
Impairment of financial assets (Note 4)	**1.1**	8.5	**11.7**	8.5
Depletion, depreciation, amortization and impairment (Notes 5 and 6)	**129.4**	135.2	**1,005.1**	274.2
Unrealized loss (gain) on foreign exchange	**(28.8)**	(15.7)	**44.6**	(33.4)
Deferred taxes	**(13.6)**	(47.4)	**(173.7)**	(77.6)
Other (Note 15)	**1.5**	0.9	**2.5**	2.2
Net change in other liabilities (Note 15)	**4.2**	(7.9)	**(1.1)**	(7.1)
Change in non-cash working capital (Note 15)	**(57.0)**	8.7	**(29.4)**	(50.0)
Cash flow from operating activities	**97.4**	193.8	**280.5**	322.1
CASH FLOW USED IN FINANCING ACTIVITIES				
Draw of long-term debt under revolving credit facilities	**650.1**	—	**1,132.8**	—
Repayment of long-term debt	**(653.7)**	(49.7)	**(1,110.9)**	(63.1)
Repayment of principal relating to lease obligations	**(5.1)**	(4.7)	**(9.7)**	(9.1)
Cash dividends paid	**(7.1)**	(53.1)	**(60.2)**	(106.2)
Cash flow used in financing activities	**(15.8)**	(107.5)	**(48.0)**	(178.4)
CASH FLOW USED IN INVESTING ACTIVITIES				
Acquisition of petroleum and natural gas properties	**—**	—	**—**	(0.2)
Disposal of petroleum and natural gas properties	**0.1**	0.9	**—**	1.1
Property, plant and equipment development expenditures (Note 5)	**(40.7)**	(172.4)	**(208.5)**	(384.6)
Exploration and evaluation asset expenditures	**(0.1)**	(0.2)	**(0.4)**	—
Change in non-cash working capital (Note 15)	**(46.8)**	(11.8)	**(32.0)**	31.1
Cash flow used in investing activities	**(87.5)**	(183.5)	**(240.9)**	(352.6)
DECREASE IN CASH AND CASH EQUIVALENTS	**(5.9)**	(97.2)	**(8.4)**	(208.9)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**6.0**	147.9	**8.5**	259.6
CASH AND CASH EQUIVALENTS, END OF PERIOD	**0.1**	50.7	**0.1**	50.7
The following are included in cash flow from operating activities:				
Income taxes paid (received) in cash	**(0.4)**	4.0	**(3.4)**	40.6
Interest paid in cash	**6.9**	6.8	**22.1**	21.2

See accompanying notes to the unaudited condensed interim financial statements.

1. STRUCTURE OF THE BUSINESS

The principal undertakings of ARC Resources Ltd. ("ARC" or the “Company”) is to carry on the business of acquiring, developing, and holding interests in petroleum and natural gas properties and assets.

ARC was incorporated in Alberta, Canada and the Company’s registered office and principal place of business is located at 1200, 308 – 4th Avenue SW, Calgary, Alberta, Canada T2P 0H7. ARC's common shares are traded on the Toronto Stock Exchange under the symbol ARX.

2. BASIS OF PREPARATION

These unaudited condensed interim financial statements (the “financial statements”) have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. These financial statements are condensed as they do not include all of the information required by IFRS for annual financial statements and therefore should be read in conjunction with ARC's audited consolidated financial statements for the year ended December 31, 2019. All financial information is reported in millions of Canadian dollars ("Cdn$"), unless otherwise noted. References to “US$” are to United States dollars.

The financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 3 "Summary of Accounting Policies" of ARC's audited consolidated financial statements for the year ended December 31, 2019. All accounting policies and methods of computation followed in the preparation of these financial statements are consistent with those of the previous year, except for income taxes. Income taxes on net income (loss) in the interim periods are accrued using the income tax rate that would be applicable to the expected total annual net income (loss).

Beginning January 1, 2020, ARC adopted the amendment to IFRS 3 *Business Combinations.* This amendment narrowed and clarified the definition of a business and permits a simplified assessment to determine whether an acquired set of activities and assets can be recognized as an asset acquisition, rather than a business combination. During the six months ended June 30, 2020, ARC did not have any acquisitions requiring application of this amendment.

These financial statements were authorized for issue by ARC's Board of Directors on July 30, 2020.

3. NOVEL CORONAVIRUS COVID-19 ("COVID-19")

In March 2020, the World Health Organization declared COVID-19 a global pandemic; prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential. At the same time, the Organization of Petroleum Exporting Countries ("OPEC"), and certain other countries, increased the planned supply of crude oil in an attempt to trigger a price war over market share. The sudden decrease in global crude oil demand due to COVID-19 coupled with a planned increase in supply significantly reduced commodity prices.

In April 2020, an agreement was made between OPEC, Russia, and other oil-producing countries around the world that would see planned global crude oil production curbed and oversupply brought closer into balance with demand. In subsequent months, concerns regarding global physical storage capacity have abated, as producers have shut in production. Crude oil prices have partially recovered from the historic lows observed earlier in the year, but price support from future demand remains uncertain as countries experience varying degrees of virus outbreak following efforts to re-open local economies and international borders.

In addition to the impact on commodity prices and commodity sales from production amounts, the effects of COVID-19 have created other uncertainties in the crude oil and natural gas industry including increased counterparty credit risk and decreased valuation of long-lived petroleum and natural gas assets and goodwill. At June 30, 2020, ARC's management has incorporated the anticipated impacts of COVID-19 in its estimates and judgments in preparation of these financial statements.

4. FINANCIAL ASSETS AND CREDIT RISK

Credit risk is the risk of financial loss to ARC if a joint interest partner or counterparty to a product sales contract, financial instrument, or other financial transaction fails to meet its contractual obligations. At June 30, 2020, ARC is exposed to credit risk with respect to its accounts receivable and risk management contracts.

Credit risk is typically considered to be very low for the Company's trade accounts receivable and risk management contracts due to ARC's processes for selecting only credit-worthy counterparties and continuously monitoring its credit exposure. Most of ARC's accounts receivable relate to crude oil and liquids and natural gas sales and are subject to typical industry credit risks. During the six months ended June 30, 2020, global events have had, and are expected to continue to have, a significant impact on companies and their credit risk. Refer to Note 3 "Novel Coronavirus COVID-19". ARC has incorporated these factors into its assessment of expected credit loss ("ECL") at June 30, 2020.

The following table details the composition of ARC's accounts receivable at June 30, 2020 and December 31, 2019:

Accounts Receivable Composition (1)	**June 30, 2020**	December 31, 2019
Commodity sales	**95.9**	115.6
Deferred consideration	**—**	10.0
Joint interest and other	**49.7**	8.8
Balance	**145.6**	134.4

(1) Net of provision for ECL.

The total ECL provision recognized in ARC's accounts receivable balance at June 30, 2020 was $59.4 million ($47.8 million at December 31, 2019).

Commodity Sales
At June 30, 2020, 66 per cent of ARC's accounts receivable were from commodity sales (85 per cent at December 31, 2019). Approximately 82 per cent (85 per cent at December 31, 2019) of these were with customers who were considered to be investment-grade and approximately 12 per cent (15 per cent at December 31, 2019) who were not considered to be investment-grade, but for which ARC held security. At June 30, 2020, for accounts receivable of this type, ARC has recorded a provision of $1.4 million for its 12-month ECL (nominal at December 31, 2019).

Deferred Consideration
In May 2018, ARC entered into a purchase and sale agreement (the "ACCEL PSA") with ACCEL Canada Holdings Limited ("ACCEL") to dispose of its interests in certain non-core assets located within the area of Redwater, Alberta for net proceeds of $130.3 million before post-closing adjustments. At closing in August 2018, $90.3 million of the purchase price was received in cash with the remaining $40.0 million being recognized as deferred consideration.

In October 2019, ACCEL filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the *Bankruptcy and Insolvency Act*. In November 2019, proceedings were converted to fall under the *Companies' Creditors Arrangement Act*. As a result of these proceedings, ARC remains contractually entitled to enforce its rights to payment, but proceedings against ACCEL in this regard are now stayed by order of the courts.

The deferred consideration amount matured on January 2, 2020. The ACCEL PSA requires the unpaid deferred consideration and accrued interest, if not paid in cash at maturity, to convert into a gross override royalty ("GOR"). On March 6, 2020, the Court of Queen's Bench of Alberta determined that the GOR was not an interest in land and that it is subordinated to other security interests. ARC did not appeal this judgment.

Following this decision, ARC re-estimated the likelihood of collection as zero per cent and recognized an impairment charge of $10.2 million in the first quarter of 2020 with respect to the deferred consideration and accrued interest. This charge was in addition to impairment charges previously recognized during the year ended December 31, 2019 of $32.7 million in respect of this deferred consideration and accrued interest, for a total provision of $42.9 million recognized at June 30, 2020 ($32.7 million at December 31, 2019).

Joint Interest and Other
Included in the balance of joint interest and other accounts receivable at June 30, 2020 is $29.4 million ($nil at December 31, 2019) related to current income taxes receivable and $7.1 million ($nil at December 31, 2019) related to the settlement of risk management contracts at period end.

In addition to the deferred consideration amount, ARC has also recognized in its joint interest and other accounts receivable amounts owing from ACCEL related to post-closing adjustments and cash payments made on their behalf following the transaction, and costs incurred while ARC continued to act as operator of the disposed assets. At June 30, 2020, the ECL provision recognized in respect of these amounts is $15.0 million ($15.0 million at December 31, 2019), which comprises the full balance of these accounts receivable.

At June 30, 2020, ARC has recognized a provision for ECL of $15.1 million in respect of its joint interest and other accounts receivable ($15.1 million at December 31, 2019).

The aging of ARC's accounts receivable at June 30, 2020 and December 31, 2019 is as follows:

Accounts Receivable Aging	**June 30, 2020**	December 31, 2019
Current (less than 30 days)	**143.7**	122.8
31 - 60 days	**1.3**	1.0
61 - 90 days	**0.5**	0.6
Past due (more than 90 days)	**0.1**	10.0
Balance	**145.6**	134.4

Maximum credit risk is calculated as the total recorded value, before an ECL provision, of accounts receivable, and risk management contracts at the balance sheet date. For additional information on financial instruments, refer to Note 10 "Financial Instruments and Market Risk Management".

5. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

Cost	**Development and Production Assets**	**Corporate Assets**	**Total**
Balance, December 31, 2019	9,155.7	77.8	9,233.5
Additions	**213.8**	**0.8**	**214.6**
Acquisitions	**3.0**	**—**	**3.0**
Change in asset retirement cost	**151.9**	**—**	**151.9**
Assets reclassified as held for sale and disposed in period	**(3.0)**	**—**	**(3.0)**
Reclassification of lease payments, net of capitalized depreciation	**(0.7)**	**—**	**(0.7)**
Balance, June 30, 2020	**9,520.7**	**78.6**	**9,599.3**
Accumulated Depletion, Depreciation, Amortization ("DD&A") and Impairment			
Balance, December 31, 2019	(4,101.9)	(57.3)	(4,159.2)
DD&A	**(259.4)**	**(2.9)**	**(262.3)**
Impairment	**(740.0)**	**—**	**(740.0)**
Balance, June 30, 2020	**(5,101.3)**	**(60.2)**	**(5,161.5)**
Carrying Amounts			
Balance, December 31, 2019	5,053.8	20.5	5,074.3
Balance, June 30, 2020	**4,419.4**	**18.4**	**4,437.8**

For the three and six months ended June 30, 2020, $4.1 million and $10.0 million of direct and incremental overhead charges were capitalized to PP&E ($6.1 million and $13.4 million for the three and six months ended June 30, 2019), respectively. Future development costs of $3.4 billion were included in the determination of DD&A for the six months ended June 30, 2020 ($3.7 billion for the six months ended June 30, 2019).

For the six months ended June 30, 2020, ARC recognized an impairment charge of $740.0 million, refer to Note 6 "Impairment" for further information.

6. IMPAIRMENT

PP&E

At June 30, 2020, ARC evaluated its PP&E for indicators of impairment or reversal of previously recognized impairment and determined that no such indicators were present compared to its last impairment test at March 31, 2020.

At March 31, 2020, an impairment test was conducted on ARC's PP&E in response to the economic impact of the global COVID-19 pandemic, the global oversupply of crude oil and the impact on commodity prices (refer to Note 3 "Novel Coronavirus COVID-19"), as well as a further decrease in ARC's market capitalization relative to the carrying value of its net assets since the date of its last impairment test. ARC conducted impairment tests over all its cash-generating units ("CGUs"). In estimating the recoverable amount of each CGU, the following information was incorporated:

i) the net present value of the after-tax cash flows from proved plus probable crude oil, condensate, NGLs and natural gas reserves ("reserves") of each CGU based on reserves estimated by ARC’s independent reserve evaluator at December 31, 2019, updated for forward commodity price estimates at March 31, 2020.

ii) the fair value of undeveloped land based on estimates provided by ARC’s independent land evaluator at December 31, 2019, and adjusted for any acquisitions, divestments and expiries occurring during the three months ended March 31, 2020.

Key input estimates used in the determination of recoverable amounts of ARC's CGUs included forward price estimates of crude oil and natural gas, volume of reserves and associated assumptions, including production costs, required capital expenditures and reserve life, and discount rate. The discount rate was based on estimates of an approximate industry peer group weighted average cost of capital.

The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates ranging from 10.0 to 11.5 per cent, depending on the resource composition of the assets in the CGU and an inflation rate of two per cent.

The following table details the forward pricing used in estimating the recoverable amounts of ARC's CGUs at March 31, 2020:

Year	Edmonton Light Crude Oil (Cdn$/bbl) (1)	WTI Crude Oil (US$/bbl) (1)	AECO Natural Gas (Cdn$/MMBtu) (1)	NYMEX Henry Hub Natural Gas (US$/MMBtu) (1)	Cdn$/US$ Exchange Rates (1)
2020	31.22	30.00	1.95	2.05	0.72
2021	47.95	41.00	2.25	2.55	0.73
2022	56.46	47.50	2.35	2.65	0.74
2023	64.19	52.50	2.45	2.75	0.74
2024	71.81	57.50	2.55	2.85	0.75
2025	73.27	58.95	2.65	2.95	0.75
2026	74.84	60.13	2.70	3.01	0.75
2027	76.44	61.33	2.76	3.07	0.75
2028	78.08	62.56	2.81	3.13	0.75
2029	79.75	63.81	2.87	3.19	0.75
Escalate thereafter at	+2.0% per year	+2.0% per year	+2.0% per year	+2.0% per year	0.75

(1) Source: GLJ Petroleum Consultants price forecast effective April 1, 2020.

As a result of its impairment test, ARC recognized an impairment of its Northern Alberta CGU in the amount of $740.0 million ($554.8 million net of deferred tax recovery), which was recognized in DD&A and impairment in the condensed interim statements of comprehensive income ("statements of income"). The Northern Alberta CGU comprises a mixture of crude oil and natural gas producing assets. The recoverable amount of $515.2 million was determined using an after-tax discount rate of 11.5 per cent.

The following table demonstrates the sensitivity of the estimated recoverable amount of the Northern Alberta CGU at March 31, 2020, from reasonably possible changes in key assumptions inherent in the estimate.

	Increase in Discount Rate of 1 Per Cent	**Decrease in Discount Rate of 1 Per Cent**	**Decrease in Cash Flow Estimates of 5 Per Cent**	**Increase in Cash Flow Estimates of 5 Per Cent**
Reversal of impairment (impairment), (net of tax)	(27.7)	31.5	(43.5)	45.0

The fair value less costs of disposal values used to determine the recoverable amounts of ARC's CGUs at March 31, 2020 were classified as Level 3 fair value measurements as certain key assumptions were not based on observable market data, but rather, Management's best estimates.

The results of the impairment and impairment reversal tests performed are sensitive to changes in any of the key judgments, such as a revision in reserves, a change in forecast commodity prices, expected royalties, required future development capital expenditures, or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or reversal of impairment charges.

Goodwill

ARC did not observe any indicators of potential impairment at June 30, 2020 and no impairment test was conducted at that date.

ARC conducted an impairment test of its goodwill at March 31, 2020 in response to the economic impact of the global COVID-19 pandemic (refer to Note 3 "Novel Coronavirus COVID-19"), as well as a further decrease in ARC's market capitalization relative to the carrying value of its net assets since the date of its last impairment test. The carrying value of goodwill at March 31, 2020 was not determined to be impaired as the combined recoverable amount of ARC's CGUs exceeded the combined carrying value of ARC's operating segment.

7. LONG-TERM DEBT

	US $ Denominated		**Canadian $ Amount**	
	June 30, 2020	December 31, 2019	**June 30, 2020**	December 31, 2019
Syndicated credit facilities				
Cdn$ denominated	**N/A**	N/A	**167.6**	36.9
US$ denominated	**1.5**	40.0	**2.1**	51.9
Senior notes				
Master Shelf Agreement				
3.72% US$ note	**149.8**	149.9	**203.9**	194.3
2009 note issuance				
8.21% US$ note	**7.0**	14.0	**9.5**	18.1
2010 note issuance				
5.36% US$ note	**59.9**	89.9	**81.5**	116.6
2012 note issuance				
3.31% US$ note	**24.0**	24.0	**32.6**	31.1
3.81% US$ note	**299.5**	299.7	**407.9**	388.7
4.49% Cdn$ note	**N/A**	N/A	**39.9**	40.0
Total long-term debt outstanding	**541.7**	617.5	**945.0**	877.6
Long-term debt due within one year			**156.0**	148.9
Long-term debt due beyond one year			**789.0**	728.7

At June 30, 2020, ARC was in compliance with all of its debt covenants. ARC executed certain amendments to the note purchase agreements governing its senior notes which were effective March 31, 2020. The amendments included a modification of certain definitions contained within the financial covenant calculations, the addition of a minimum liquidity requirement, additional language surrounding event of default, and the addition of a mechanism under which the issuer may offer to purchase notes outstanding at par without penalty. As well, the definition of "Total EBITDA" to be used in determining compliance under two of ARC's financial covenants was amended to exclude non-cash losses and non-cash expenses.

At June 30, 2020, the fair value of all long-term debt is $991.9 million ($908.6 million as at December 31, 2019), compared to a carrying value of $945.0 million ($877.6 million as at December 31, 2019).

8. ASSET RETIREMENT OBLIGATION ("ARO")

ARC has estimated the net present value of its total ARO to be $557.3 million as at June 30, 2020 ($409.6 million at December 31, 2019) based on a total future undiscounted liability of $859.4 million ($856.5 million at December 31, 2019). Management estimates that these payments are expected to be made over the next 67 years with the majority of payments being made in years 2069 to 2086. The Bank of Canada's long-term risk-free bond rate of 1.0 per cent (1.8 per cent at December 31, 2019) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2019) were used to calculate the present value of ARO at June 30, 2020.

The following table reconciles ARC’s provision for its ARO:

	Six Months Ended June 30, 2020	Year Ended December 31, 2019
Balance, beginning of period	409.6	356.7
Development activities	**1.6**	4.6
Change in estimates [1]	**6.8**	13.5
Change in discount rate	**144.8**	59.5
Settlement of obligations	**(8.9)**	(18.4)
Accretion	**3.4**	7.3
Acquisitions	**—**	0.2
Reclassified as liabilities associated with assets held for sale and disposed in period	**—**	(13.8)
Balance, end of period	**557.3**	409.6
Expected to be incurred within one year	**10.0**	25.5
Expected to be incurred beyond one year	**547.3**	384.1

(1) Relates to changes in costs of future obligations and anticipated settlement dates of ARO.

9. CAPITAL MANAGEMENT

ARC actively manages its capital structure and adjusts it in response to changes in economic conditions and the risk characteristics of its underlying assets. ARC has the ability to change its capital structure by issuing new shares, new debt or changing its dividend policy. On March 13, 2020, ARC announced that it reduced its dividend from $0.05 per share per month to $0.06 per share per quarter. On June 15, 2020, ARC declared a quarterly dividend of $0.06 per share.

ARC’s objective when managing its capital is to maintain a conservative structure that will allow it to:

- fund its development and exploration programs;
- provide financial flexibility to execute on strategic opportunities; and
- maintain a dividend policy that is sustainable.

ARC manages its capital through common shares and net debt.

When evaluating ARC’s capital structure, Management targets net debt to be between 1.0 and 1.5 times annualized funds from operations over the long term; however, during periods of significant commodity price weakness, ARC expects that the ratio could trend above this range. At June 30, 2020, ARC's net debt was 1.5 times its annualized funds from operations.

In addition to the aforementioned reduction in the dividend, ARC announced a reduction in its planned capital expenditures for 2020 from $500 million to $300 million. These measures were undertaken to reduce the Company's net debt balance towards the ratio of 1.0 to 1.5 times annualized funds from operations.

Funds from Operations

ARC considers funds from operations to be a key measure of operating performance as it demonstrates ARC's ability to generate the necessary funds to maintain production at current levels, fund future growth through capital investment, and to repay debt. Management believes that such a measure provides an insightful assessment of ARC's operations on a continuing basis by eliminating certain non-cash charges and actual settlements of ARO, the timing of which is discretionary. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

Funds from operations for the three and six months ended June 30, 2020 and 2019 is calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	**2020**	2019
Cash flow from operating activities	**97.4**	193.8	**280.5**	322.1
Net change in other liabilities (Note 15)	**(4.2)**	7.9	**1.1**	7.1
Change in non-cash operating working capital (Note 15)	**57.0**	(8.7)	**29.4**	50.0
Funds from operations	**150.2**	193.0	**311.0**	379.2

Net Debt

Net debt is used by Management as a key measure to assess the Company's liquidity. Net debt is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

The following table details the composition of ARC's net debt as at June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
Long-term debt (1)	**945.0**	812.3
Lease obligations (2)	**38.1**	49.9
Accounts payable and accrued liabilities	**110.3**	155.5
Dividends payable	**21.3**	17.7
Cash and cash equivalents, accounts receivable, current deferred consideration, and prepaid expense	**(153.6)**	(206.2)
Net debt	**961.1**	829.2
Net debt to annualized funds from operations (ratio)	**1.5**	1.1

(1) Includes Current portion of long-term debt at June 30, 2020 and 2019 of $156.0 million and $64.1 million, respectively.
(2) Includes Current portion of lease obligations at June 30, 2020 and 2019 of $11.5 million and $8.9 million, respectively.

10. FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

Financial Instruments

At June 30, 2020, ARC's financial instruments include cash and cash equivalents, accounts receivable, risk management contracts, accounts payable and accrued liabilities, dividends payable, lease obligations, and long-term debt.

ARC's financial instruments that are carried at fair value on the unaudited condensed interim balance sheets ("the balance sheets") include cash and cash equivalents and risk management contracts. All of ARC's financial instruments carried at fair value are transacted in active markets.

ARC's cash and cash equivalents are classified as Level 1 measurements and its risk management contracts and fair value disclosure for its long-term debt are classified as Level 2 measurements in the three-level fair value measurement hierarchy. The fair value of ARC's long-term debt is disclosed in Note 7 "Long-Term Debt". ARC does not have any financial instruments classified as Level 3 that are carried at fair value. There were no transfers between levels in the fair value hierarchy for the six months ended June 30, 2020.

The carrying values of ARC's accounts receivable, accounts payable and accrued liabilities, and dividends payable as at June 30, 2020 approximate their fair values due to the short-term nature of these instruments.

Financial Assets and Financial Liabilities Subject to Offsetting

The following is a summary of ARC's financial assets and financial liabilities that are subject to offsetting as at June 30, 2020 and December 31, 2019:

	Gross Amounts of Recognized Financial Assets (Liabilities)	Gross Amounts of Recognized Financial Assets (Liabilities) Offset on Balance Sheets	Net Amounts of Financial Assets (Liabilities) Recognized on Balance Sheets Prior to Credit Risk Adjustment	Credit Risk Adjustment	Net Amounts of Financial Assets (Liabilities) Recognized on Balance Sheets
As at June 30, 2020					
Risk management contracts					
Current asset	**125.7**	**(84.4)**	**41.3**	**(0.3)**	**41.0**
Long-term asset	**45.0**	**(41.8)**	**3.2**	**—**	**3.2**
Current liability	**(92.9)**	**84.4**	**(8.5)**	**0.2**	**(8.3)**
Long-term liability	**(87.1)**	**41.8**	**(45.3)**	**0.9**	**(44.4)**
Net position	**(9.3)**	**—**	**(9.3)**	**0.8**	**(8.5)**

As at December 31, 2019					
Risk management contracts					
Current asset	71.9	(30.3)	41.6	(0.2)	41.4
Long-term asset	21.9	(17.7)	4.2	—	4.2
Current liability	(36.6)	30.3	(6.3)	0.2	(6.1)
Long-term liability	(47.4)	17.7	(29.7)	1.0	(28.7)
Net position	9.8	—	9.8	1.0	10.8

Risk Management Contracts

The following table summarizes ARC's risk management contracts as at June 30, 2020:

Risk Management Contracts Positions Summary (1)

As at June 30, 2020	Q3 - Q4 2020		2021		2022		2023		2024	
Crude Oil – WTI	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	55.70	8,500	57.29	7,992	—	—	—	—	—	—
Floor	47.35	8,500	50.35	7,992	—	—	—	—	—	—
Sold Floor	41.92	6,500	40.23	7,992	—	—	—	—	—	—
Swap	45.16	4,000	35.05	1,000	—	—	—	—	—	—
Sold Swaption (2)	—	—	54.32	3,008	—	—	—	—	—	—
Crude Oil – Cdn$ WTI (3)	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day	Cdn$/bbl	bbl/day
Ceiling	86.38	6,500	—	—	—	—	—	—	—	—
Floor	75.38	6,500	—	—	—	—	—	—	—	—
Sold Floor	60.38	6,500	—	—	—	—	—	—	—	—
Total Crude Oil Volumes (bbl/day)		**19,000**		**8,992**		**—**		**—**		**—**
Crude Oil – MSW (Differential to WTI) (4)	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day	US$/bbl	bbl/day
Ceiling	(7.00)	1,000	—	—	—	—	—	—	—	—
Floor	(10.20)	1,000	—	—	—	—	—	—	—	—
Swap	(8.01)	6,989	—	—	—	—	—	—	—	—
Natural Gas – NYMEX Henry Hub (5)	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Ceiling	2.94	125,108	3.02	110,000	3.11	45,000	2.74	10,000	2.74	10,000
Floor	2.56	125,108	2.55	110,000	2.55	45,000	2.50	10,000	2.50	10,000
Sold Floor	2.17	125,108	2.10	110,000	2.18	45,000	2.10	10,000	2.10	10,000
Swap	1.86	13,405	—	—	—	—	—	—	—	—
Natural Gas – AECO 7A	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day	Cdn$/GJ	GJ/day
Ceiling	3.06	50,162	2.41	120,000	2.40	90,000	2.40	90,000	2.40	90,000
Floor	2.56	50,162	1.95	120,000	1.87	90,000	1.87	90,000	1.87	90,000
Swap	2.23	90,324	1.99	40,000	2.06	10,000	2.06	10,000	2.06	10,000
Sold Swaption (2)	—	—	—	—	2.00	20,000	—	—	—	—
Total Natural Gas Volumes (MMBtu/day)		**271,669**		**261,651**		**139,782**		**104,782**		**104,782**
Natural Gas – AECO Basis (Differential to Henry Hub)	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day	US$/ MMBtu	MMBtu/ day
Sold Swap	(0.85)	83,297	(0.93)	69,192	(0.88)	35,000	(0.91)	70,000	(0.91)	70,000
Total AECO Basis Volumes (MMBtu/day)		**83,297**		**69,192**		**35,000**		**70,000**		**70,000**
Natural Gas - Other Basis (Differential to Henry Hub) (6)		MMBtu/day		MMBtu/day		MMBtu/day		MMBtu/day		MMBtu/day
Sold Swap		100,000		120,000		110,000		80,000		4,973

Foreign Exchange	Settlement Date	Notional (US$ millions)	Ceiling (Cdn$/US$)	Floor (Cdn$/US$)
Variable Rate Collar (7)	August 24, 2020	24	1.2771	1.3231

(1) The prices and volumes in this table represent averages for several contracts representing different periods. The average price for the portfolio of options listed above does not have the same payoff profile as the individual option contracts. Viewing the average price of a group of options is purely for indicative purposes. All positions are financially settled against the benchmark prices.
(2) The sold swaption allows the counterparty, at a specific future date, to enter into a swap with ARC at the above-detailed terms. These volumes are not included in the total commodity volumes until such time that the option is exercised.
(3) Crude oil prices referenced to WTI, multiplied by the WM/Reuters Intra-day Cdn$/US$ Foreign Exchange Spot Rate as of Noon Eastern Standard Time.
(4) MSW differential refers to the discount between WTI and the mixed sweet crude grade at Edmonton, calculated on a monthly weighted average basis in US$.
(5) Natural gas prices referenced to NYMEX Henry Hub Last Day Settlement.
(6) ARC has entered into basis swaps at locations other than AECO.
(7) Variable rate collar whereby if the Cdn$/US$ spot rate is below $1.2771 at expiry, the ceiling will re-adjust to $1.3058.

11. SHAREHOLDERS' CAPITAL

(thousands of shares)	**Six Months Ended June 30, 2020**	Year Ended December 31, 2019
Common shares, beginning of period	353,411	353,443
Restricted shares issued pursuant to the LTRSA Plan	—	284
Forfeited and cancelled shares pursuant to the LTRSA Plan	—	(26)
Unvested restricted shares held in trust pursuant to the LTRSA Plan (1)	**(28)**	(290)
Common shares, end of period	**353,383**	353,411

(1) Unvested restricted shares held in trust pursuant to the Long-term Restricted Share Award ("LTRSA") Plan includes restricted shares granted and purchased.

Net income (loss) per common share has been determined based on the following:

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of shares)	**2020**	2019	**2020**	2019
Weighted average common shares	**353,383**	353,431	**353,383**	353,431
Dilutive impact of share-based compensation (1)	**—**	455	**—**	448
Weighted average common shares, diluted	**353,383**	353,886	**353,383**	353,879

(1) For the three and six months ended June 30, 2020, 4.6 million share options were excluded from the diluted weighted average shares calculation, as they were anti-dilutive (5.1 million for the three and six months ended June 30, 2019).

Dividends declared for the three and six months ended June 30, 2020 were $0.06 and $0.18 per share ($0.15 and $0.30 for the three and six months ended June 30, 2019), respectively.

12. COMMODITY SALES FROM PRODUCTION

ARC derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

Commodity Sales from Production, by	Three Months Ended June 30		Six Months Ended June 30	
Product	**2020**	2019	**2020**	2019
Crude oil	**35.3**	116.8	**112.1**	221.5
Condensate	**38.1**	66.4	**97.0**	114.3
Natural gas (1)	**135.2**	94.7	**264.3**	253.5
NGLs	**9.3**	5.0	**14.0**	21.4
Total commodity sales from production	**217.9**	282.9	**487.4**	610.7

(1) Includes $3.3 million and $6.6 million of natural gas transportation revenue from contracts temporarily assigned to third parties for the three and six months ended June 30, 2020 ($3.4 million and $8.0 million for the three and six months ended June 30, 2019), respectively.

At June 30, 2020, receivables from contracts with customers, which are included in accounts receivable, were $95.9 million ($115.6 million at December 31, 2019).

13. SHARE-BASED COMPENSATION PLANS

Long-term Incentive Plans

The following table summarizes the Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), and Deferred Share Unit ("DSU") movement for the six months ended June 30, 2020:

(number of awards, thousands)	**RSUs**	**PSUs Granted Prior to 2019** (1)	**PSUs Granted Subsequent to 2018** (1)	**DSUs**
Balance, December 31, 2019	2,236	1,628	1,780	945
Granted (2)	**1,765**	**363**	**2,378**	**247**
Distributed	**(473)**	**(641)**	**—**	**(87)**
Forfeited	**(25)**	**(1)**	**(1)**	**—**
Balance, June 30, 2020	**3,503**	**1,349**	**4,157**	**1,105**

(1) Based on underlying awards before any effect of the performance multiplier.
(2) Grants for 'PSUs Granted Prior to 2019' relate to re-invested dividends and additional performance awards for grants that vested in the current period.

Compensation charges (recoveries) relating to the RSU Plan, PSU Plan, and DSU Plan is reconciled as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	**2020**	2019
General and administrative ("G&A")	**6.3**	(5.8)	**0.6**	2.0
Operating	**0.8**	(0.3)	**0.1**	0.5
PP&E	**0.6**	(0.3)	**0.3**	0.2
Total compensation charge (recovery)	**7.7**	(6.4)	**1.0**	2.7
Cash payments	**—**	—	**4.9**	4.6

At June 30, 2020, $11.5 million of compensation amounts payable were included in accounts payable and accrued liabilities on the balance sheets ($11.1 million at December 31, 2019) and $20.2 million was included in long-term incentive compensation liability ($24.5 million at December 31, 2019). A recoverable amount of $0.1 million was included in accounts receivable at June 30, 2020 ($nil at December 31, 2019).

Share Option Plan

The changes in total share options outstanding and related weighted average exercise prices for the six months ended June 30, 2020 were as follows:

	Share Options (number of units, thousands)	**Weighted Average Exercise Price ($)**
Balance, December 31, 2019	5,097	17.27
Forfeited	**(10)**	**21.35**
Expired	**(493)**	**21.48**
Balance, June 30, 2020	**4,594**	**16.61**
Exercisable, June 30, 2020	**1,608**	**21.22**

The following table summarizes information regarding share options outstanding at June 30, 2020:

Range of exercise price per common share ($)	Number of share options outstanding (thousands)	Weighted average exercise price per share for options outstanding ($)	Weighted average remaining term (years)	Number of share options exercisable (thousands)	Weighted average exercise price per share for options exercisable ($)
12.13 - 20.00	4,176	15.43	3.7	1,190	18.67
20.01 - 28.46	418	28.46	1.0	418	28.46
Total	4,594	16.61	3.5	1,608	21.22

ARC recognized compensation expense of $0.9 million and $1.7 million relating to the Share Option Plan for the three and six months ended June 30, 2020 ($0.9 million and $2.0 million for the three and six months ended June 30, 2019), respectively. During the three and six months ended June 30, 2020, $nil and $0.1 million of share option compensation charges were capitalized to PP&E ($nil and $0.1 million for the three and six months ended June 30, 2019), respectively.

LTRSA Plan

The changes in total LTRSA outstanding and related fair value per restricted share for the six months ended June 30, 2020 were as follows:

	LTRSA (number of awards, thousands)	Fair Value per Restricted Share ($)
Balance, December 31, 2019	742	12.64
Restricted shares granted and purchased	29	3.04
Balance, June 30, 2020	**771**	**12.29**

ARC recognized G&A expense of $0.2 million and $0.5 million relating to the LTRSA Plan during the three and six months ended June 30, 2020 ($1.1 million and $1.3 million for the three and six months ended June 30, 2019), respectively.

14. COMMITMENTS AND CONTINGENCIES

The following is a summary of ARC's contractual obligations and commitments as at June 30, 2020:

	Payments Due by Period				
	1 Year	2-3 Years	4-5 Years	Beyond 5 Years	Total
Debt repayments (1)	156.0	446.8	260.5	81.7	945.0
Interest payments (2)	29.2	37.7	16.1	3.0	86.0
Purchase and service commitments	20.7	18.0	7.3	0.7	46.7
Transportation commitments	166.6	315.2	295.8	711.0	1,488.6
Total contractual obligations and commitments	**372.5**	**817.7**	**579.7**	**796.4**	**2,566.3**

(1) Long-term and current portion of long-term debt.
(2) Fixed interest payments on senior notes.

During the year ended December 31, 2018, ARC disposed of certain non-core assets to ACCEL. Refer to Note 4 "Financial Assets and Credit Risk". In October 2019, ACCEL filed a counterclaim against ARC for $200.0 million for damages alleging breaches of contract or misrepresentation related to the ACCEL PSA. On January 3, 2020, ARC filed its Defence to the Counterclaim. Management does not expect the outcome of the counterclaim to result in a material outflow of resources by ARC.

ARC had previously disposed of certain non-core properties, and as part of the sales process, relevant operating licenses are transferred to the purchaser(s) by the provincial regulator. At June 30, 2020, certain operating licenses of disposed assets have not yet transferred from ARC to the purchaser. While the Company believes the risk is low, if the licenses fail to transfer, ARC could be responsible to fund asset retirement obligations relating to disposed assets in the amount of $11.8 million.

15. SUPPLEMENTAL DISCLOSURES

Presentation in the Statements of Income

ARC's statements of income are prepared primarily by nature of item, with the exception of employee compensation expense which is included in both operating and G&A expense line items.

The following table details the amount of total employee compensation expense included in operating and G&A expense line items in the statements of income:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	**2020**	2019
Operating	**6.4**	6.5	**13.9**	18.5
G&A	**16.2**	9.2	**31.0**	29.0
Total employee compensation expense	**22.6**	15.7	**44.9**	47.5

Presentation in the Statements of Cash Flows

The following tables provide a detailed breakdown of certain line items contained within cash flow from operating and investing activities:

	Three Months Ended June 30		Six Months Ended June 30	
Change in Non-Cash Working Capital	**2020**	2019	**2020**	2019
Accounts receivable	**(64.8)**	21.7	**(22.9)**	36.6
Deferred consideration	**—**	(0.6)	**—**	(42.0)
Accounts payable and accrued liabilities	**(38.8)**	(20.7)	**(39.5)**	(11.3)
Prepaid expense	**(0.2)**	(3.5)	**1.0**	(2.2)
Total change in non-cash working capital	**(103.8)**	(3.1)	**(61.4)**	(18.9)
Relating to:				
Operating activities	**(57.0)**	8.7	**(29.4)**	(50.0)
Investing activities	**(46.8)**	(11.8)	**(32.0)**	31.1
Total change in non-cash working capital	**(103.8)**	(3.1)	**(61.4)**	(18.9)

	Three Months Ended June 30		Six Months Ended June 30	
Other Non-Cash Items	**2020**	2019	**2020**	2019
Share-based compensation expense	**1.1**	1.1	**2.2**	2.4
Other amortization	**0.4**	(0.2)	**0.3**	(0.2)
Total other non-cash items	**1.5**	0.9	**2.5**	2.2

	Three Months Ended June 30		Six Months Ended June 30	
Net Change in Other Liabilities	**2020**	2019	**2020**	2019
Long-term incentive compensation liability	**4.5**	(4.6)	**(4.3)**	(0.9)
ARO settlements	**(0.9)**	(3.4)	**(8.9)**	(12.2)
Other deferred liabilities	**0.6**	—	**12.1**	5.7
Accrued lease interest	**—**	0.1	**—**	0.3
Total net change in other liabilities	**4.2**	(7.9)	**(1.1)**	(7.1)

The following tables provide a detailed breakdown of the cash and non-cash changes in financing liabilities arising from financing activities:

Financing Liabilities	**Current Financial Liabilities**	**Long-Term Financial Liabilities**	**Total Financial Liabilities from Financing Activities**
Balance, December 31, 2019	165.2	758.6	923.8
Cash flows			
Draw of long-term debt	**—**	**1,132.8**	**1,132.8**
Repayment of long-term debt	**(51.1)**	**(1,059.8)**	**(1,110.9)**
Repayment of lease obligations	**(9.7)**	**—**	**(9.7)**
Reclassified to current			
Long-term debt	**51.1**	**(51.1)**	**—**
Lease obligations	**5.0**	**(5.0)**	**—**
Non-cash changes			
Lease recognition	**—**	**1.8**	**1.8**
Lease modification and termination	**(0.1)**	**(0.1)**	**(0.2)**
Unrealized foreign exchange loss	**7.1**	**38.2**	**45.3**
Other	**—**	**0.2**	**0.2**
Balance, June 30, 2020	**167.5**	**815.6**	**983.1**

Financing Liabilities	Current Financial Liabilities	Long-Term Financial Liabilities	Total Financial Liabilities from Financing Activities
Balance, December 31, 2018	80.5	828.7	909.2
Impact of change in accounting policy	13.5	44.5	58.0
Balance, January 1, 2019	94.0	873.2	967.2
Cash flows			
Repayment of long-term debt	(63.1)	—	(63.1)
Repayment of lease obligations	(9.1)	—	(9.1)
Reclassified to current			
Long-term debt	49.7	(49.7)	—
Lease obligations	4.0	(4.0)	—
Non-cash changes			
Lease recognition	0.2	0.5	0.7
Accrued lease interest	0.3	—	0.3
Unrealized foreign exchange gain	(3.0)	(30.8)	(33.8)
Balance, June 30, 2020	73.0	789.2	862.2